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COMPARISONS OF THE UNITED STATES
AND SOVIET ECONOMIES

Supplemental Statement on Costs and Benefits to the Soviet
Union of Its Bloc and Pact System : Comparisons
With the Western Alliance System

PREPARED BY THE CENTRAL INTELLIGENCE
AGENCY IN COOPERATION WITH THE
DEPARTMENT OF STATE AND THE
DEPARTMENT OF DEFENSE

FOR THE
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OF THE
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LETTER OF TRANSMITTAL

JUNE 17, 1960.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Economic Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR DOUGLAS: Transmitted herewith is a supplemental statement to the Subcommittee on Economic Statistics' study of "Comparisons of the United States and Soviet Economies." As you know, the study consists of a series of papers prepared by panelists appearing in the subcommittee's hearings, and the published hearings. The papers were issued in September and October, 1959, as Parts I, II, and III of the study and the hearings were published in November of 1959.

The following paper has been prepared by the Central Intelligence Agency, in cooperation with the Department of State and the Department of Defense, in response to a request from Senator Jacob K. Javits, made during the appearance of Director Dulles of the Central Intelligence Agency at the subcommittee's hearings on November 13, 1959 (hearings on "Comparisons of the United States and Soviet Economies," pp. 16 and 17). Senator Javits at that time asked that the comparisons which Mr. Dulles made in his statement to the subcommittee be expanded at a later date to include an examination and appraisal of advantages to the Soviet of their bloc and pact system, as compared with the alliances of United States and its Western allies.

The subcommittee thinks this reply to Senator Javits' question is a highly useful statement and takes this method of bringing it before the Joint Economic Committee, the Congress, and the public.

Sincerely,

RICHARD BOLLING,
Chairman, Subcommittee on
Economic Statistics.

Enclosure

FOREWORD

A comparison of the costs and benefits to the Soviet Union of its bloc and pact system with the costs and benefits to the United States of its alliances is, at best, difficult. The very asymmetry of the two systems; on the one hand a grouping based on coercion by intimidation and on the other an alliance based on cooperation by invitation, causes controversy over the judgments and conclusions reached in making the comparison. It is a comparison which in some respects courts danger. For example, in judging the relative potential effectiveness of opposing Communist and Free World military forces one must consider, in addition to their equipment and training the attitudes and morale of the forces involved. And it is in just such areas that our ability to predict is weakest. A soldier compelled to bear arms for an authoritarian state may not be an enthusiastic and courageous warrior. On the other hand, fear of repressive measures, to himself or family, may restrict the degree of acceptable alternatives open to him other than to carry out his assigned duty.

The analysis which is contained in this report is an attempt to distill out of this heterogeneous mixture of factors and forces rational judgments and measurements of the contributions which each of the ingredients makes towards the strength of the two systems.

This report is based upon the joint contributions of the Departments of State and Defense and the Central Intelligence Agency and has been reviewed by all contributors for matters within their respective purviews.

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I. SUMMARY AND CONCLUSIONS

The USSR and the US and its allies derive significant economic, political, and military gains from their respective treaty arrangements. Losses too, are incurred by both. On balance, it is felt that the Western powers gain more from their alliances than the Soviet bloc does from its bloc and pact system. Such a conclusion must be assessed, however, under the sobering realization that the Soviet gains result in a total bloc power position which presents the Free World with a serious challenge.

A. The Sino-Soviet Bloc

There can be no question but that the Soviet Union has realized, and will continue to realize, significant economic, political, and military gains from its bloc and pact system with the European Satellites and Communist China. That these gains have been counterweighted, to varying degrees, by losses is an equally unchallengeable conclusion. On balance, the weight of evidence clearly shows a net gain for the Soviet Union in terms of the present world power position of international communism.

The economic gains accruing to the USSR as a result of the European bloc arrangements were greatest during the 1945-55 period when direct and indirect reparations netted the USSR an amount estimated at roughly 10 billion dollars. Of lesser import initially, but of increasing value, has been the establishment in these Satellite countries of Soviet-type economic systems whose total energies are directed towards an effort

which is both complementary and supplementary to the Soviet economy. While these Satellite economies cannot be utilized by the Soviet Union as though they were its own they have extended the geographic area which, under Soviet hegemony, contributes to overall Bloc economic strength.

This accrual of economic assets was not without the incurrence of economic liabilities, however. As a result of the political realization that the events of 1956 required a reappraisal of economic policies, various economic concessions made to the European Satellites probably "cost" the USSR as much as 3 billion dollars over a period of years. For the foreseeable future, given a continuation of current economic policy, the USSR will continue to derive a net economic gain from its alliance with the European Satellites although this gain will probably be proportionately smaller than previously.

Conversely, the economic contribution of Communist China while small, if not negative, during most of the last decade, is becoming of increasing importance to the USSR.

Soviet aid supporting Communist China's forced industrialization has been wholly on a pay-as-you-go basis and, while the goods received by China are vital to the industrialization program, they have not represented any significant drain on the Soviet economy.

In addition, the rapid economic growth of Communist China, made possible by the receipt of this Soviet aid, will increasingly permit China to support from indigenous sources its own industrial and military goods production programs.

In terms of total economic strength, using the concepts of gross national product (GNP) and industrial production as a measure of this strength, the contribution of the European Satellites and Communist China to total bloc power is impressive. Aggregated, these states contribute about 45 percent of the total Communist Bloc GNP and about the same percentage of total industrial production. Of particular significance is the rising share of Communist China in total industrial production; 6 percent in 1950, 12 percent in 1959, and an estimated 16 percent by 1965. With an annual average rate of growth projected for the 1959-65 period of about one and one-half times that of the aggregated Western Alliance, the growing economic strength of the Communist Bloc is a formidable challenge to the West. In addition, due weight should be given to the relatively greater power of Communist governments to direct the expenditure of national resources.

This economic growth has also been a significant contribution to the political power of the Soviet Bloc. Moreover, the extension of Soviet political and economic power into Eastern Europe and Mainland China has provided distinct assets to the Soviet Union in addition to the aggregative increase in total economic strength. It has replaced, on borders of the Soviet Union proper, many of the governments formerly hostile to it with Communist regimes not only "friendly" but also heavily dependent on it and therefore amenable to Soviet control or guidance. It has, in the Soviet Union's own eyes, largely removed the threat of "capitalist encirclement" and provided it with forward military positions from which to pressure the West.

In addition to these assets, and at least of equal importance, is the boost for the power and prestige of world communism provided by this multiplication of communist regimes. Their existence has been of great importance to the heightened clan of the world communist movement and to communism's claim to represent the system of the future.

The liabilities incurred by the Soviet Union in the formation of the "socialist camp" are equally impressive. In Eastern Europe Soviet political control is maintained largely by the threat, or the use, of force. Historic nationalism in some of these Satellites is coupled with a traditional enmity towards Russia. To these factors must be added the restiveness incurred by the depression of living standards and the totalitarian system of rule.

Communist China presents a problem of a different nature. Close political relations with the USSR are maintained on the basis of near co-equality rather than by force. The national interests of the two states do not always coincide -- and may well significantly diverge in the future -- affecting Moscow's hegemony in a system which demands a single source of leadership and direction.

From a military point of view, the armed forces of the Soviet Satellites and Communist China provide a significant increment to total bloc military strength. They are the source of over 50 percent of the total active strength of the armed forces of the Sino-Soviet Bloc (59 percent of Army active strength) and a lesser, but meaningful share of military aircraft and naval vessels. The areas controlled by these forces provide a defensive buffer against ground action and a vital

contribution towards early warning for air defense purposes. The size of the Soviet contribution of military end-items has become proportionately smaller while the capability of the other bloc members to supply their military forces from indigenous production has steadily increased. Nonetheless, the Bloc members are far more dependent on the USSR for advanced weapons than our allies are upon the US.

While the Eastern European Satellites and the Communist Chinese military forces are well trained and equipped to fight effectively, any estimate of their contribution to total military strength depends upon an evaluation of their "reliability." This reliability judgment also has gradations within groups in each national state and between the various bloc countries. On an ordinal scale, Communist Chinese forces would probably stand at the top of the list with East German and Hungarian forces at the bottom. The other European Satellites would be ranked in between with the degree of reliability in large part a function of the nature of the conflict.

B. The Western Alliances

It is true, too, that our alliances have clearly realized significant gains for the United States. On balance, these gains accrue equally to each partner since the alliances are effectively based on common political values, reciprocal security agreements, and mutually advantageous economic relationships. That there are costs to the US -- and to its partners -- in these alliances is also recognized. Almost without exception though, these costs are ad hoc

liabilities which result from the freedom of action insured to each member of the alliance. Of crucial significance in this comparative study is the fact that the long-run effect of these costs on the stability and cohesion of the alliance is to strengthen it.

Economically, the Marshall Plan and the Point IV programs of the early postwar years were the antithesis of Soviet expropriation policies. Freely given, they provided the economic stability essential to the survival and progress of the recipients as members of a Free World community. The economic relationships of the US with its allies, based on the principle of mutual advantage, have not differed materially from pre-alliance periods.

Measured in statistical terms, the GNP of our allies is presently larger than that of the US and their total industrial production is nearly equal to ours. Both measures are a growing share of total Allied economic strength. The past, and projected future, growth rates of the Western Alliance as a whole, however, are lower than those of the Communist Bloc.

Politically the great contribution of our Allies is the fact that they hold to the common principles of human dignity, freedom, and individual worth; principles which have resulted in a degree of mutual cooperation in attaining common goals that is unprecedented in peacetime. The political cohesion of the Western alliances during such periods as Korea, the Berlin blockade, and the current Berlin situation is further testimony to the contribution of our allies to Western world political power. This cohesion against a common foe, coupled with a freedom of choice in internal political affairs is an

asset which is becoming increasingly recognized by the underdeveloped and uncommitted nations of the world and is a primary weapon in the political struggle. Events such as Hungary in 1956 and Tibet in 1959 serve to enhance our appeal while helping to dull the lure of the communist ideology.

US military strength is impressive. The contribution of our allies to total allied strength is perhaps more impressive. In terms of total armed forces active strength our allies contribute almost three quarters of the total (five-sixths of total army active strength), about two-fifths of the aircraft in operational units, and about three-fifths of total allied naval strength. In each of these examples, this voluntary association has resulted in a contribution whose share of the total is much larger than the share coerced by the USSR from its Satellites -- testimony to the fundamental differences in the nature of the two alliances. These allied forces represent an impressive deterrent and retaliatory strength.

The costs to the US of its military aid program are significant, but for each dollar we have spent on military assistance between 1950 and 1958, recipient nations have spent more than six dollars.

II. THE USSR AND ITS BLOC AND PACT SYSTEM

A. The European Satellites

1. Economic Assets and Liabilities

Important economic benefits have accrued to the Soviet Union from its agreements with the European Satellites since World War II, although these have been sharply reduced since 1955, and in some recent years there may have been Soviet economic costs. Through its political and military power position the USSR exerts considerable control over the economies of the European Satellites. The degree of Soviet control, given its inherent ability to apply direct and ruthless pressure in order to enforce its objectives, has been consistently high since the seizure of power of Communist regimes in each of the European Satellites. However, the nature and form which this control has actually taken over time has varied.

During the early postwar years there was a clear advantage to the Soviet Union from direct reparations of capital plant and equipment received from the European Satellites; from indirect reparations in the form of profits of Soviet-controlled companies which used skilled personnel, plant and equipment, and materials indigenous to the area; from Satellite payments of the occupation costs of the Soviet troops in their countries; and from the abnormally low prices paid by the USSR for such goods and services as East German uranium ore, Polish coal, and Polish railroad services. These Soviet takings were slowly reduced during the early 1950's, but continued through at least 1955, and in the case of East German occupation costs, through

1958. Over the postwar period as a whole a rough monetary estimate of the reparations comes to 10 to 12 billion dollars, several times the value of Soviet credits to the Satellites during this period which amounted to about $1\frac{1}{2}$ billion dollars and which were probably partly repaid by 1956. In view of the weakened state of all Soviet bloc economies after World War II these impositions must have been of considerable advantage to the Soviet Union and were certainly a heavy burden on the European Satellites.

With the establishment of Soviet-type economic systems in each of the Satellites, involving state ownership of most of the means of production and central planning of the economy, economic policies favoring the rapid development of heavy industry and the development of intra-bloc trade have been the primary objectives of each of these countries. In following these Soviet-inspired policies the Satellite regimes have implemented economic plans which both supplement and complement the economic development plans of the USSR. Although the Soviet Union can levy specific requirements on particular Satellites for industrial development programs which it considers important for economic or strategic reasons, Satellite plans are neither closely integrated with the Soviet plan nor can the Soviet Union now utilize the economic resources and production of the Satellites as though they were its own. The practical limitations of control by sheer force were amply demonstrated in the events of 1956, since which time the Soviet Union has preferred to discard the most onerous forms of control over the Satellites. In discarding these controls it has allowed more liberal economic policies in some

of these countries (notably Poland and Hungary) and has provided greater support for their economic programs. These measures have involved Soviet economic outlays, or at least the foregoing of certain economic gains, in the interest of ensuring the economic and political stability of the European Satellites.

During 1956-58, Soviet credits to the Satellites exceeded those extended in the entire preceeding decade, and they involved more favorable terms -- longer repayment periods and lower interest rates. Moreover, the Soviet Union made some additional economic concessions, such as the cancellation of part of old debts due from the Satellites; the granting of higher prices for Polish coal; Polish railroad services, and East German uranium ore; and reductions in the charges to East Germany for occupation costs. These concessions probably freed the Satellites from obligations to the Soviet Union of over 3 billion dollars, which would otherwise have had to been paid over a period of years.

Since the disturbances of 1956, Soviet-Satellite trade relations have assumed a volume and character which more closely approximates the economic law of comparative advantage. At the same time, however, these trade relations reflect the effects of Soviet influence in the orientation of Satellite economic development along lines both supplementary and complementary to Soviet economic development. In 1958, trade in each direction between the Soviet Union and the European Satellites amounted to about 2½ billion dollars; roughly one-half of the total foreign trade of the Soviet Union and 40 percent

of the total foreign trade of the Satellites. The pattern of Soviet trade with each of the European Satellites varies with the degree of industrialization of the Satellite trading partner. From the more industrialized Satellites the USSR receives machinery and equipment such as merchant ships, railroad, metallurgical, chemical, and electrical equipment in exchange for raw materials and food; from the less industrialized Satellites, on the other hand, Soviet trade involves the exchange of raw materials and foods for items of Soviet manufactures.

On balance, if the European Satellites were suddenly detached from the Soviet Union and all intra-bloc trade came to a standstill (with no concomitant increase in Soviet trade with non-Bloc countries) it would be a clear disadvantage to the Soviet Union. The USSR, with the Seven Year Plan goals as a restraint, would undoubtedly have to use more internal resources in producing the commodities and services planned to be imported from the European Satellites than the resources it plans to use in producing the goods and services to be exported to the European Satellites in payment. Under a second assumption, namely, that the European Satellites were detached and normal trading relations were established by the Soviet Union with all countries (former European Satellites and non-bloc countries), then the pattern of trade with the former European Satellites would probably not be very different from what it is at present. This continuation of patterns, at least in the short run, would be a function of the history of the economic development of the European

Satellites since World War II as affected by the influence of the USSR on Satellite economic development. Over the longer run, the economic development of these "former" European Satellites, especially under a condition of market economies, would probably change direction and be less complementary to the USSR. In that circumstance the Soviet Union would probably suffer a net "loss".

The economic benefits to the Soviet Union of its pact with the European Satellites, as described above, are important and, to some extent, quantifiable. Probably as important, if not more important, is the contribution of these economies to overall Soviet influence and prestige. This contribution is also the most difficult one to quantify. Economic size and growth in the European Satellites is a significant contribution to the size and growth of the Sino-Soviet Bloc. The size of the Bloc relative to the Free World is considered by many to be a significant measure of the success or failure of the Communist system and the achievement of rapid or low rates of growth another such measure.

From the point of view of size alone, the European Satellites represent a considerable addition to the economic resources of the Soviet Union. Population, total civilian employment and employment in industry in the Satellites are approximately one-half of that in the Soviet Union in each case. The aggregate gross national product (GNP) of the European Satellites amounts to about two-fifths of the Soviet GNP and is about equal to the GNP of West Germany. Some of the Satellites are more developed economically than the Soviet Union;

others are less developed. East Germany is one the most industrialized countries in the world while Albania is the most primitive country in Europe. Per capita GNP in the Satellites ranges from a high of \$1,100 to \$1,200 in East Germany and Czechoslovakia (compared to about \$1,500 in West Germany, \$2,500 in the U.S., and nearly \$1,000 in the Soviet Union), to approximately \$500 in Bulgaria, and probably much less in Albania. Satellite total industrial production presently is over 55 percent of USSR industrial production, a smaller share than in 1950, but still a significant portion of the total.

Economic growth in the European Satellites has roughly paralleled that in the Soviet Union. Since 1950, GNP in the Satellites has grown at about 6 to 7 percent a year, and industrial production at about 9 percent a year. Rates of economic growth in the European Satellites are expected to decline only slightly in the next few years -- to perhaps 5 to 6 percent for GNP and about 7 percent for industrial production. Past rates of growth in the European Satellites have been considerably larger than in the NATO countries as a whole (with or without the United States), and have been equalled in only a few countries of Western Europe. (See Appendix for a tabular presentation of comparative economic data).

This success in achieving a rapid rate of industrial economic growth was accomplished, in large part, at the expense of little or no improvement in living standards. Comparisons, in living standards, with Western Europe are more unfavorable to the European

Satellites then they were ten years ago and, in some cases, than they were before World War II. This failure to fulfill either the promises of the regimes or the expectations of the populations has been an important element in the economic and political instability of the European Satellites, particularly in the period 1955-56. Present economic policies in the European Satellites, although still aimed at achieving rapid economic growth, appear to provide for a steady, if slow, rise in living standards and tend, therefore, to be more conducive to political stability than the earlier "Stalinist" policies.

The Soviet Union probably also benefits economically from European Satellite trade relations with the underdeveloped and uncommitted countries. The economic gains from comparative advantages, particularly in the export of whole plant and equipment (projects) and of technical talent are quite clear. Less directly observable but probably equally important, is the fact that this activity is a less obvious form of communist economic penetration than if it were practiced solely by the Soviet Union itself.

2. Political Assets and Liabilities

The extension of Soviet political power into Eastern Europe at the close of World War II has provided certain distinct assets to the Soviet Union. First and most obvious, it enhanced the security of the Soviet state. Not only had the governments of the countries bordering the Soviet Union frequently been hostile to it, but the geographical area itself forms a natural invasion route of the USSR, and history is replete with instances when that area has been so used. The imposition of Communist regimes in the East European

countries -- in effect an extension of Soviet state power -- meant the establishment in those countries of governments not only "friendly" to the Soviet Union but almost entirely dependent on it and amenable to Soviet control. The conclusion of bilateral mutual assistance treaties between the Soviet Union and the communist regimes of these countries in the late 1940's, and the founding of the Warsaw Pact in May 1955 provided the legal framework and justification for the stationing of Soviet forces in Eastern Europe and their reintroduction in the event the regimes there were threatened either from within or without. This forward position of Soviet military power in Europe has both enhanced the Soviet state's security and provided the Soviet Union with a vantage point from which to pressure the West, particularly in the case of Germany whose Eastern part is occupied by Soviet troops.

In addition to these assets and at least of equal importance, is the boost for the power and prestige of world communism which has been provided by the multiplication of communist regimes in Eastern Europe and the formation of the "socialist camp." Despite the fact that the East European bloc regimes were set up and are largely maintained by the use, or threat of use, of Soviet military force, their existence has been of great importance to international communism's added prestige in international councils (UN and East-West negotiations), to the heightened elan of the world communist movement, and, probably most important of all, to communism's claim to represent the system of the future which will eventually and inevitably encompass the entire world.

The liabilities to the Soviet Union of its East European empire are no less impressive than its assets, and they stem from two fundamental factors which the Soviet Union cannot alter without basically changing the nature of the bloc structure in Eastern Europe. First, the regimes were imposed by the Soviet Union by force (except, in Czechoslovakia's case, under the shadow of Soviet armed might) against the will of the people in Eastern Europe and they are maintained largely by the use or threat of use of Soviet force. Thus they are obliged to subordinate their own national interests to the interests of the Soviet state and therefore are, by their very nature, colonial regimes in an era where nationalism is probably the strongest political force extant. In addition, some of the nationalities of Eastern Europe hold traditional enmities toward Russia as a historic entity. A second basic and closely related weakness is the fact that most of the peoples of Eastern Europe strongly dislike the communist system imposed upon them, with its stringent domestic policies, depressed living standards, and oppressive method of rule. These two factors reinforce each other: dislike of communism is heightened by the fact that it has been imposed by an alien government, and hatred of national oppression is intensified by the fact that it is totalitarian in nature.

The harsh policies which the Soviet Union is obliged to pursue to maintain the stability and unity of the bloc structure in East Europe also affect adversely other Soviet foreign policies. For example, Soviet intervention to suppress the Hungarian uprising in the autumn of 1956 belies Moscow's professed desire for "peaceful coexistence," its alleged respect for the independence of all nations large and small, etc.

Similarly, the renewed attacks on the independent Yugoslav regime in April-May 1958 damaged the USSR's assiduously cultivated relations with the neutralist countries of Asia.

The future outlook is for the maintenance of Soviet control over Eastern Europe for the foreseeable future, and for the reasons given, Soviet hegemony in the area will continue to constitute a positive benefit for the political interests of the USSR.

The maintenance of Soviet influence in Eastern Europe will not, however, be an unalloyed blessing and will be beset with continuing difficulties. Even though the USSR has largely succeeded in repairing the damage caused by the Hungarian revolt and Polish riots of 1956 and the short-term outlook is for less instability, it appears likely that, over a period of time, there will be a gradual attenuation of the more overt forms of Soviet control in Eastern Europe. In more than a decade of the existence of Soviet control over the communist regimes in Eastern Europe, there have been four major cases of national defiance or popular revolt against Soviet rule (Yugoslavia, 1948; East German Berlin uprising, June 1953; Poland, June-October 1956; and Hungary, October-November 1956), with one of them completely successful (Yugoslavia), one of them partially successful (Poland), and the other two suppressed at a large cost to Soviet prestige. There may well be similar developments, although under different circumstances, over the next decade inasmuch as Moscow's basic problems in the area will remain unsolved. Simultaneously, or alternatively, the USSR may feel obliged to grant the satellite regimes a large degree of autonomy in the hope that this will allay popular hostility and avoid overt acts of defiance.

3- Military Assets and Liabilities

Evaluated only in terms of sheer magnitude the armed forces of the European Satellites provide a significant increment to total Sino-Soviet Bloc military strength. At the same time, this increment of strength is available to the USSR only at a very considerable cost.

There is a close inter-relationship between the military establishment of the Soviet Union and the European Satellites, with the latter depending heavily on the former for weapons, equipment, POL, and other support. This dependence is intentional, however, and is in keeping with Soviet plans for retaining internal military and political control in these countries as well as for retaining control over the freedom of action of these countries in their own foreign policy, military, and political activities. The Satellite military raw material and hardware contribution to the USSR is, in turn, nearly insignificant except for the provision of uranium ore and the production of military electronic and optical equipment in East Germany and Czechoslovakia. In addition, the countries in which Soviet troops are stationed (East Germany, Poland, and Hungary) supply products such as food, fuel, clothing, and ammunition to the Soviet Forces and provide some material and training as part of the Soviet Bloc military aid programs.

Of the total Sino-Soviet Bloc active military manpower strength of about 9.3 million, the European Satellites contribute over one million military troops. The Soviet-sponsored ground armies

of these Satellites total nearly one million men, organized in some sixty line divisions. They are equipped with Soviet-type armored vehicles, artillery, small arms, and electronic and engineering equipment. Most of this material has come from the USSR, although all of the Satellites except Albania are producing some Soviet-type military equipment. Only Czechoslovakia is known to be making weapons of original design. Satellite line divisions are generally well organized, well equipped, and well trained; some of the units reflecting the latest Soviet organizational concepts designed to meet the requirements of modern war in which tactical nuclear weapons could be used. The combat effectiveness of these forces is maintained at a high level and, while almost wholly dependent on Soviet logistical support they could, with an outbreak of hostilities, provide a defense buffer for the USSR and/or protection for its lines of communication. (See Appendix, Table 3, for tabular data)

The European Satellites have only a limited air capability. On the other hand, in addition to providing this marginal supplement to the strength of the Soviet air force, the air defense role of the Satellites, especially Czechoslovakia and Poland, is an important source of early warning to the Soviets. A major contribution is the larger number of well distributed airfields and depots which would be invaluable as advanced staging areas for the Soviets. Czechoslovakia and Poland also have minor military aircraft industries but these lean heavily on the USSR for material support. The contribution, similarly, of the Satellite naval forces to the overall strength of

The Sino-Soviet naval forces is also marginal. Most are of Soviet origin; and all are heavily dependent upon the USSR for logistic support. Some small benefit to the USSR probably also accrues as a result of the use by Soviet naval forces of Satellite port facilities.

While the Satellite military forces are well trained and equipped to fight effectively, the capability to assist the USSR in war depends to a great extent on their "reliability." It is in this area that the evaluation of costs or benefits becomes most difficult.

Reliability may be considered to be affected primarily by the influence that the USSR will have on these forces, either due to the proximity of Soviet armed forces, or the success of Communist indoctrination upon their will to fight. Reliability to the Bloc cause would have various gradations within different groups in a single country. The national leadership, being de facto closely identified with Bloc objectives, can be considered as highly reliable. The careful selection and surveillance of military leaders and their indoctrination and that of their troops should result in a higher degree of reliability among the military than in the population as a whole.

Satellite armed forces would fight best against traditional enemies or if they believed their national interests were at stake. In general, the allies could be expected to fight at least reasonably well until Bloc forces are put on the defensive and forced to retreat. If only because of strict Soviet control measures, significant defections could not be confidently expected until this situation existed.

It is difficult to rate the Satellites in order of reliability. However, in East Germany, the most exposed Satellite with ties of blood with West Germany, the USSR would probably exercise great care in the manner in which East German forces were employed. Bulgaria, on the other hand, being traditionally pro-Russian, would probably be considered as reliable by the Soviets. In all cases the performance of the Satellite nations, would be determined in large part by the circumstances of the war.

B. Communist China

1. Economic Assets and Liabilities

The decade just passed, which saw the seizure of power by a communist regime in mainland China and the alliance of that regime with the Soviet Union, was a milestone in Sino-Soviet relations. It is only now that the point is being reached where economic magnitudes have a significant meaning in terms of the costs and benefits of the alliance to the Soviet Union. Barring some unusual and unexpected development which would drastically alter the present course of the economy of Communist China it is estimated that the rapid growth in Communist China's economic strength will continue and that this growth will be of increasing benefit to the world power position of the USSR.

During the past ten years, the timely and selective shipment of Soviet manufactured machinery and equipment and the provision of technicians and other technical aid has had a tremendous impact on the Chinese Communist industrial economy. Soviet aid has been concentrated on the building and equipping of large, relatively

modern, industrial plants which form the backbone of the Chinese industrial development program. By the end of 1958, about 140 to 150 of the some 300 major plants being built with Soviet assistance had gone into pilot or full operation. Chinese Communist industrial production, over the period 1950-58, is estimated to have increased approximately 5 times, an annual average rate of about 23 percent. Gross national product nearly doubled during this same period. (See Appendix, Tables 1 and 2, for further statistical data)

The Soviet support for Communist China's forced industrialization program has not been of any significant cost to the USSR. In the earlier years of the program the USSR provided two loans for economic purposes totalling \$430 million. These were substantially used up by the end of 1955, and since that time, the Chinese have been exporting more to the USSR than they have been importing. This excess of exports over imports has been going primarily to repay these economic credits plus some military credits used in earlier years. It is not impossible that these priority contributions to China's industrialization have been of some cost to the Soviet economy by hindering the equipment of programmed Soviet industrial expansion. In view of the rapid expansion of the Soviet industrial base in recent years, however, it is not believed that the shipment of machinery and equipment to Communist China has represented any significant drain on Soviet industrial growth.

The goods received from the USSR are vital to Communist China's industrialization program whereas those received by the USSR from China are not nearly so vital to the Soviet economy. Nonetheless,

the USSR derives substantial benefits from Communist China exports of such commodities as tin and beryllium which are not available in sufficient volume from Soviet sources. Other Chinese Communist exports to the USSR -- foodstuffs, textiles, and raw materials -- have no direct bearing on Soviet industrial production but, as a result of comparative advantage, result in the freeing of capital resources for further industrial expansion in the USSR.

In addition, the rapid development of the Chinese Communist economy, and especially the industrial sector, is in itself a benefit to the USSR. The Chinese Communists are increasingly able to provide capital goods for the expansion of their industry and to fill their own military supply requirements. Chinese Communist industry produces small arms and ammunition; and, with Soviet help, has been able to undertake the production of Soviet-type artillery, jet aircraft, tanks, and submarines. Some of the component parts for these items are presently supplied by the USSR but the Chinese Communists have not advanced beyond the "assembly stage" in which the Soviet-made parts were put together in Chinese factories.

Continued rapid expansion of the Chinese Communist economy will be of increasing benefit -- and decreasing cost -- to the USSR. The image of rapid industrialization under a Soviet-type system presents an appealing picture, particularly to the underdeveloped countries of South and Southeast Asia. So long as this picture is not unduly blurred by a realization of the human costs involved, or destroyed completely by crude power blunders such as recent Chinese actions in Tibet and India, the USSR will realize a net gain from the alliance.

If Communist China can maintain its previous rapid economic growth, it will be able to provide the additional resources needed to equip and maintain a large and increasingly modern armed force without the assistance from the USSR which was forthcoming in past years. While assessments of the economic development of Communist China are uncertain at best, it is estimated that industrial production in Communist China, less than 7 percent of that of the USSR in 1950, may have grown to about 16 percent by 1953 and, by 1965, could increase to about 25 percent of that of the USSR according to present forecasts. This expanding industrial base would provide the goods and services required for an expansion of Communist China's foreign aid program in direct support of the overall Bloc foreign economic policies.

In short, if the anticipated rapid growth in Communist China's economic strength actually occurs, it will greatly benefit the USSR through its effect on the Bloc's general economic strength and through its enhancement of the prestige accorded to the Soviet economic model by the underdeveloped and uncommitted countries of the world. The one sour note from the USSR's point of view -- and it is essentially a political rather than an economic note -- is that Communist China's greatly enhanced economic strength as it is translated into military and political policy may continue to be wrapped in a revolutionary fervor which will make it less responsive to, and more independent of, overall Soviet objectives.

2. Political Assets and Liabilities

The Soviet Union derives substantial assets from its alliance with Communist China. The existence of a communist ally in Mainland China greatly increases the security of the USSR on its flank in Asia and the Far East. Further, the establishment of the Chinese Communist regime was -- as the Soviet themselves publicly proclaim -- the most significant extension of communist power in the world since the communist revolution in Russia in 1917. For their part, the Chinese Communists see in the Soviet Union a guarantor of their security and an indispensable source of the economic assistance which they need to realize their ambition to build Communist China into a modern industrial power.

At the same time, the acquisition of a valuable ally in Mainland China has raised certain problems for the Soviet Union. From its very inception the Chinese Communist regime has occupied a special, junior partner, position in the bloc system, and has presented the USSR with a unique problem in maintaining close relations with it. As Communist China's power has grown it has become more vociferous and assertive in pursuing certain of its national interests which do not coincide fully with those of the USSR. A case in point is the Peiping regime's recalcitrant and aggressive stand in its present border dispute with India which the USSR apparently views as detrimental to its short-term interests.

The Chinese Communist regime's special status in the communist bloc, which has become even more pronounced since the death of Stalin in 1953 and the USSR's troubles in East Europe in the autumn

of 1956, has also had disruptive effects within the Bloc. Basic in this regard is the fact that the Peiping regime is building "socialism" under conditions which differ greatly from those in the USSR and consequently is led to adopt policies and ideological formulations which diverge from the Soviet model. The most recent example of this is the commune program in Communist China. Although this approach to the administration of agriculture and small scale industry appears to the Chinese Communist leadership as logical -- indeed, vitally necessary -- it is a significant deviation from Soviet practice in a critical field and hence poses a challenge to the USSR's position of unqualified leadership of the communist bloc and international communist movement. The Soviet Union's disapproval of the commune program has been unmistakably, though obliquely expressed.

In sum, Peiping's emergence within the Bloc as a second ideological center -- given the different conditions confronting the Chinese Communists -- cannot but affect Moscow's hegemony in a system which claims to be based upon a universal scientific truth and thus demands a single source of leadership and direction.

On balance, the Sino-Soviet alliance constitutes a large advantage to the Soviet Union, as well as to Communist China itself. The prospects are that the dominant characteristic of the alliance for the foreseeable future will be continued close cooperation between the two powers in what they conceive of as their vital struggle against the non-communist world.

It is also likely that the difficulties and problems in maintaining close harmony in the alliance will increase with the passing of time. This is true because Communist China's increasing power and decreasing dependence on the Soviet Union will weaken the leverage the latter has on Peiping and provide a more propitious background for the emergence of differences between them. Nevertheless, both powers apparently see no acceptable alternative -- quite apart from the obvious advantages -- to maintaining their alliance, and adjusting to differences which arise between them.

3. Military Assets and Liabilities

The military establishment of Communist China depends heavily on the Soviet Union for support. Most advanced weapons, complex equipment and POL are supplied to the Communist Chinese armed forces by the USSR. In addition, Communist China depends on industrial machinery and technical assistance from the USSR to build up its own munitions industry. The military logistics contribution of the Chinese Communists to the USSR is insignificant except for a few raw materials such as tin, tungsten and, indirectly, rubber. However, the vast manpower resources and area of Communist China, extending from the Soviet border to the Pacific, are potentially valuable contributions to the Bloc in time of emergency.

The Chinese Communist armies are equipped with Soviet type vehicles, artillery, small arms, electronic and engineering equipment, an increasing amount of which is being manufactured in Communist China.

The Chinese Communist standing army totals over two million men, the equivalent of well over 100 line divisions, with the bulk of these infantry. A very much larger semi-military militia, reinforced by a hard core of ex-servicemen, could in time of emergency be quickly absorbed into the armed forces. The militia is used to assist the army and police in maintaining internal security and, together with the army, to augment the labor force.

Although not as modern as those of the Soviet Union, the ground forces of Communist China are improving in efficiency by means of reorganization, training, and equipping with newer weapons. They are a formidable addition to Bloc military strength.

The air forces of Communist China have an improving, though limited, air capability. They are, however, still heavily dependent on the Soviet Union for training, weapons and equipment. While the Chinese Communists produce a few light transport planes of their own design and helicopters and fighter aircraft in very limited numbers, the Soviets provide all other aircraft. Communist China does not produce either jet fuel or aviation gasoline and is almost entirely dependent upon shipments of these products by rail from the Soviet Union to satisfy its requirements.

On the other hand, in addition to supplementing the strength of the Soviet air force, the air defense capability of the Chinese Communists is an important segment in the Bloc defense warning system and the many well distributed airfields and their facilities would be useful as staging areas for the Soviets.

Like the army and air force of Communist China, the navy is also largely dependent on the USSR. Most of the ships in the fleet are of Soviet origin and those few smaller types which have been built outside the USSR are based on Soviet plans and technology. Communist China has constructed submarines and escort vessels (the largest warships constructed in the Bloc outside the USSR), but only with considerable Soviet assistance. Logistic support also comes largely from the USSR. Ordnance and ammunition for the most part originate in the Soviet Union as do POL and spare parts for Soviet-type ships.

The only Naval facilities of significance provided by Communist China to the USSR are port facilities. However, the Chinese Communist Navy, especially its submarine force, is a small but useful addition to Bloc naval strength.

The capability of the armed forces of Communist China is continuing to improve. Since the Korean War it has much improved with Soviet assistance in training and modernization. In addition, the regime is stressing heavily political indoctrination in order to insure loyalty to the regime. In small scale operations of relatively short duration, as in Tibet, the Chinese Communist armed forces could operate independently. In large scale operations the Chinese Communists should be able to contribute materially to the over-all military strength of the Bloc, provided logistic support from the USSR is forthcoming.

III. THE US AND ITS ALLIANCE SYSTEM

A. Economic Assets and Liabilities

It is more than a little difficult to attempt to strike a balance of economic advantages and costs to the US of its NATO and other alliances in terms commensurable with those used to describe the USSR's relations with the other countries of the Sino-Soviet Bloc. The first and most obvious difference is that the collective security arrangements in which the US participates cannot be equated with the Soviet bloc and pact system. Whatever exploitative economic advantages may have accrued to the USSR during the early post-World War-II period, (through direct and indirect reparations, other forms of more or less disguised expropriation, and crude manipulation of the terms of trade), they have no counterpart in the West. Indeed, while the USSR was taking reparations, the US was implementing the Marshall Plan and Point IV. Whether or not these policies involved, respectively, net economic "gains" for the USSR or net economic "costs" for the US, they largely antedated the political and military alliances and would thus seem only remotely relevant to an inquiry into the present economic strengths and weaknesses of alliances as such. Had there been no Marshall Plan in the early post-war years, however, we would probably have fewer Free World Allies today.

It has been noted above that the economic development policies of the European Satellites were patterned after those of the Soviet Union and that the foreign trade of these Satellites was reoriented so as to complement and supplement Soviet resources.

Here again, such "advantages" had no counterpart in the West. The USSR was -- and, to a predominant extent, still is -- an autarkically isolated economic area, dependent to an abnormal degree on its own natural resources and on its own centralized planning. Enlargement of this economic space to include the resources of the Satellites made possible very real economic gains by extending the scope for international and inter-regional specialization. The US and its Allies, on the other hand, already belonged to a world economy which, although it was less integrated in the first post-war decade than under the pre-1914 or pre-1931 international monetary standards, was nevertheless more integrated economically than the Soviet Bloc is today. Moreover, in comparing the superficially parallel moves toward regional economic integration on the two sides of the Iron Curtain, another significant difference should be kept in mind: integration of the Bloc has increased the Satellites' trade dependence on the USSR; integration in Western Europe has greatly improved the position of the European countries in developing sound multilateral trade relationships with other countries, including the US.

To the extent that, since 1956, the Bloc may have been moving into a third phase of economic inter-relationships, in which trade is increasingly of mutual benefit to the respective partners, this has been only a partial and belated turn toward what has all along been considered a normal state of affairs in Free World trade.

Similar mutual benefits from the international division of labor accrue to the US in its trade with its Free World partners regardless of alliances. It may be noted, however, that more than 85 percent of both our import and export trade in 1958 (excluding "special category" exports) is carried on with members of our alliance system, or their overseas territories. Thus, if it could be said above that a hypothetical sudden detachment of the Satellites and China or a cessation of intra-bloc trade would be "a clear disadvantage to the Soviet Union," which has followed autarkic policies for 40 years, an analogous hypothetical severance of ties between the US and its Allies would be even more disadvantageous to this country. Viewed in this light, the US undoubtedly has a far greater economic stake in its alliance system than the USSR has in China and the Satellites.

The success and prestige of the Communist system are frequently judged by the economic size and economic growth of the Bloc. In this respect the resources of Red China and the Satellites add considerably to the economic strength of the Soviet Union. However, the allies of the US (not counting their overseas territories) are estimated to have an aggregate gross national product (expressed in dollars of comparable purchasing power ^{1/}) surpassing that of the US by one-eighth or more. Their total industrial production in value

^{1/} It may be noted that for the purposes of the present paper, which involves direct comparisons with estimates of Soviet Bloc national accounts aggregates calculated by a purchasing-power-parity method, it would be seriously inconsistent and misleading to convert GNP data of the other Free World countries into dollars at the current official exchange rates. The figures given herein have been expressed in dollar terms at implicit rates of conversion believed to represent the approximate purchasing-power ratios between the domestic currencies concerned and US dollars of 1958 purchasing power.

terms is approximately equal to that of the US. Their aggregate steel production and electric power production are also of comparable magnitudes. Thus, one can say that this country's various Allies together have all the industrial strength of a second United States, that the total GNP of the US plus its Allies is about a trillion dollars of 1958 purchasing power, and that the particular combination of Free World countries that is linked by multi- and bi-lateral security arrangements with the US still "outweighs" the Sino-Soviet Bloc economically by more than two-to-one.

Now that rates of economic growth are coming increasingly into public consciousness as elements of the contest for "prestige", it is of special interest that the percentage growth of our Allies' GNP and industrial production has considerably exceeded that of the US during the past decade. An important element in this growth in the first half of the decade is of course the period of recovery from the destruction and economic dislocation brought on by World War II. It is probable that during the next few years our NATO partners and our other Allies will continue to grow economically at a somewhat more rapid rate than this country. The relatively greater importance of their combined economic strength will be of increasingly critical importance if the Free World coalitions are to maintain a substantial material lead over the Bloc.

As the name of the "mutual security program" suggests, a large part of the military and economic foreign aid effort of the US is associated with our policy of collective security. It has undoubtedly

contributed to the fact that today the Sino-Soviet Bloc is confronted by a set of interlocking collective security arrangements having twice the economic importance of the US alone. On the other hand, it would be just as clearly unrealistic to try to impute the "costs" of our aid programs against specific economic "advantages" which, even if quantifiable, would be non-comparable. For example, our military grant aid programs, which are running at a level of some 2 billion dollars annually, are not in general on a quid pro quo basis with the recipient countries. Rather, they must be viewed in the context of our entire defense effort, in which the manner of allocation or deployment of particular US resources of men, supplies, and material depends ultimately on our strategic interests. In this sense, military grant programs are analogous to our expenditures of dollars abroad to support our own overseas troops and installations. To single out deliveries of military end items to allied governments as a more significant portion of the "cost" of a collective security arrangement than, say, maintenance of SAC bases in the US and abroad is very misleading. Moreover, some of our military aid goes to governments with which we are not formally allied.

The relationship between our economic aid and our collective security arrangement is still more indirect. Of total non-military grants running at an annual rate of about 1.6 billion dollars, less than a billion dollars go to Allies. Where credits or sales of agricultural products for local currencies are concerned, it is

impossible (except in one or two obvious cases) to consider such "aid" as part of the "cost" of an alliance at all. Indeed, with few exceptions, our NATO Allies are now repaying us more annually in debt redemption than they are receiving in new credits or grants.

B. Political Assets and Liabilities

Collective security in peacetime must be grounded on a set of basic values held in common, a security system acceptable to all the Allies and to which they all contribute, and mutually advantageous economic relationships. The interaction of these three factors determine not only the durability but the political strength and cohesion of the alliance.

It is the great strength of NATO that it so materially satisfies these conditions. The values held in common among the nations of the North Atlantic Community are as extensive and probably more responsive to basic human aspirations than those held by any other group of people in the world. Although interpretations of the concept of democracy vary somewhat, attachment to the principle of human dignity, freedom and individual worth is almost universal. Perhaps, more significantly, the North Atlantic peoples recognize their common heritage and West European culture derived from Greco-Roman civilization.

Faced by the danger of Soviet aggression and subversion, the NATO countries banded together in 1949 to combine their resources for defense. Since then they have worked out an agreed strategy and a set of military goals. Their cooperation in organizing their forces and working toward these goals has been unprecedented in peacetime.

The infinite complexities of such joint programs as the building of the necessary military infra-structure -- airfields, ports, and other common-use installations -- have in the main been coped with successfully. Beginnings have been made on joint production of complex modern weapons. While greater cooperation is undoubtedly desirable, the fact remains that NATO's functioning integrated command system has no peacetime precedent in relations among sovereign nations.

US assistance to European recovery from the devastation of World War II, through the Marshall Plan, plus a growing realization of the economic interdependence of the Atlantic area has led to close economic cooperation in Europe. The improvement in Europe's economic situation resulting from such cooperation has substantially strengthened the NATO alliance. The emergence of new forms of highly promising collaboration among the communities of the Six, now makes it necessary that ways be found to establish health trade relationships between the Six and other trading nations of the Free World.

To these accomplishments the NATO Allies have added the practice of frequent and close consultation on matters of mutual political and military interest. These consultations have repeatedly been the means of resolving differences of views among the Allies, who like other groups of people have from time to time seen problems from different standpoints. Thus, NATO's strength and its value to the members is reflected, not by the number and complexity of the problems that have arisen within its framework, but by the host of solutions that have been found to them.

In Asia there are several overlapping systems of alliances which together, however, are not comparable in comprehensiveness to NATO in Europe. One of these, the British Commonwealth, is not considered here although it includes a number of important Asian countries contributing significantly to the aggregate strength of non-Communist Asia. Alliance systems linking countries of the area directly to the US are SEATO and ANZUS, which include as Asian members Pakistan, Thailand, the Philippines, Australia, and New Zealand. In addition, Japan, Korea, and the Republic of China are linked to the US through bilateral treaties. Although these countries, singly or in combination, are no match for the might of the Sino-Soviet Bloc without US participation, each of the countries listed contributes importantly to the strength of non-Communist Asia.

The US allies in the area have repeatedly and in various ways demonstrated their strength. Indicative of their democratic approach to basic problems of the area are the orderly land reform programs that have been completed in many of them, notably Korea, Japan, the Republic of China, and the Philippines. The most highly developed economy in Asia is that of Japan, competing in growth and exceeding in absolute terms, the highly-touted progress of Communist China without the regimentation of the latter. SEATO has instituted several projects to encourage regional cooperation in such fields as military, planning, culture, and education. To a degree, such cooperation and other forms of outside help are required to assist a number of the smaller and less developed nations to meet successfully

the political, social, and economic strains caused by the need to maintain the necessary defense establishment. The military effectiveness of the alliance system was demonstrated in 1958 in the Taiwan Strait. Deterred from expanding hostilities by the commitments embodied in the US-Chinese alliance, the Chinese Communists were forced by Republic of China military action to abandon their publicly-proclaimed effort to seize Quemoy as a stepping stone to the seizure of Taiwan. The alliances created since the cessation of hostilities in Korea and Vietnam have helped prevent further outbreaks of aggression in those areas. The constant Sino-Soviet Bloc diplomatic and propaganda campaign seeking to undermine the alliances and "neutralize" the Asian participants can be regarded as a further testimonial to the effectiveness of the alliance system.

The Rio Treaty signed in 1942 is the cornerstone of all our military relationships with Latin American countries. In this treaty, we and our Latin American neighbors enunciated the doctrine that an attack against any member of the regional community shall be regarded as an attack against all. Since the beginning of World War II, and especially since the Korean War, Latin American countries have sought to reorient their armed forces in the direction of collective hemispheric defense. They have requested US military training missions (now assigned to 18 countries), have had military personnel trained in US military schools, have procured standard US equipment, and 12 countries have signed bilateral agreements committing certain of their military units for the performance of collective defense missions, under the coordinated directions of the Inter-American Defense Board.

We have enjoyed close relations with Latin America since their independence almost 150 years ago. Latin America is a major market for US goods, having purchased 24 percent of our total exports in 1957 and 25.6 percent in 1958. She has supplied many strategic items to our defense mobilization stock pile. US direct investment in the area rose from \$3 billion in 1946 to approximately \$9 billion at the end of 1957. Latin American influence in the UN and other international forums has become an increasingly significant force for world stability and peace, and the various countries of the area have, for the most part, taken a common position with the United States in such forums.

C. Military Assets and Liabilities

Most Americans are intimately familiar with US defense efforts -- an annual national defense and military assistance program of more than \$40 billion per year and the fact that we have almost 2.5 million men under Arms. However, there is comparatively little knowledge of what our allies are contributing to the mutual defense effort.

Since 1950, the Army ground forces of our Allies have increased from 3.5 million to 4.7 million men. Combatant naval forces have increased from 1,200 to 2,100 vessels. Aircraft in these forces have greatly increased while operational units now contain over one-half jet aircraft. These figures do not reveal the vast qualitative improvements in training, equipment, morale and leadership which apply to all these forces. Today, US ground forces represent about 15% of the total allied ground forces of 5,570,000 men, 60% of the 29,000 aircraft in operational units, and 40% of the 3,700 combatant vessels. (See Appendix, Table 3 for a tabular presentation of comparative military strength data.)

The US has contributed substantially to the growth of allied forces; however, for each dollar we have spent between 1950 and 1958 on military assistance, recipient nations have spent more than \$6 -- with the ratio of expenditures by our allies steadily increasing.

No consideration of the contribution of allies to free world defense would be complete without taking into account relative costs. Evidence of these costs can be seen in a comparison of the cost to pay, feed and clothe a US soldier with the same costs for soldiers of our allies. The cost for an American soldier has been estimated to be \$3,859 annually. (Not including weapons, equipment, transportation and other expenditures.) By contrast, the similar cost to pay, feed and clothe a Belgian soldier was \$1,430; a Greek \$391; or a Chinese \$167.

We cannot evaluate how much the strength represented by Allied forces would have cost the US had we tried to create it entirely with our own resources. Beyond question, were it not for the allied contribution to defense, for our own security, as well as for theirs, we would have had to maintain a larger defense effort involving much greater defense expenditures, more men under arms, and a considerably larger proportion of them overseas. Moreover, the armed forces of our allies have a familiarity with local terrain and conditions that cannot be matched by US armed forces.

The primary security aim of the United States and its allies is to deter the Sino-Soviet Bloc from using its military power to precipitate either global or local wars. Total war could begin

either with a massive attack by the bloc, or through the expansion of a local conflict. We and our allies must be prepared to fight either type of war should it be forced upon us. In addition, our allies must maintain forces capable of maintaining internal security, particularly in areas along the periphery of the Communist bloc.

The NATO alliance serves as a deterrent force against either local or all-out Soviet-bloc military action against the NATO area. The retaliatory forces of NATO are composed of the strike force of the Allied Command plus external forces under national command, i.e., US SAC, UK Bomber Command, and the Allied Naval Forces with their nuclear capabilities. The shield forces, with the exception of five US divisions, are composed entirely of forces of our NATO allies. One of the principal functions of strong NATO shield forces, deployed well forward, is to reduce to a minimum, or remove altogether, any possible uncertainty in the minds of the Soviet leaders that they could risk military action on any scale in Europe; and particularly -- to insure that they could not take such action without a major all out effort which would make their intentions clear beyond doubt. European NATO powers have over 3 million men under arms and the annual combined defense expenditures of these countries have more than doubled in the past ten years. In general their defense efforts have been great; in those cases where their defense expenditures have been lower than might have reasonably been expected in terms of their general economic condition there have frequently been cogent political reasons why these expenditures

could not be increased. However, the US has recently, on a number of occasions, asked its allies to do their utmost to take on a larger share of this burden. On balance, the NATO forces represent a formidable deterrent to Communist aggression. However, the forces in general are suffering from obsolescence and lack of money to more fully modernize. Diversion of French equipment and forces to Algeria and other differences of national interests have tended to decrease the cohesiveness and power of NATO.

The collective defense system has enabled the US to maintain more than 250 military installations abroad. Our Strategic Air Command, our Navy, and our Army would each be vastly more costly if they were forced to operate only from continental US bases. Our response to such situations as Lebanon and Korea would be unacceptably slowed and our present capability to launch a knock-out retaliatory strike from diverse locations would be severely hampered if it were not for these bases. They further help insure that the Soviets could not launch a surprise attack which would cripple our retaliatory capability at one blow. These bases are especially important to us during that period when long-range guided missiles are under development.

In countries associated with CENTO, SEATO and the Rio Pact the principal contribution desired from our allies is their ability to resist local aggression and maintain internal security. We rely upon Allied forces around the periphery of the Sino-Soviet Bloc to deter aggression and provide initial resistance in the event of hostilities. In addition to this direct military gain, the US reaps certain benefits of a more general political nature from the cohesiveness of the alliance system.

In the Far East, for example, allied forces total over 1,500,000 men. Without these forces the United States would have to station far greater numbers of American troops in the area to maintain our security objectives. In this area the Republic of China and Korea are two significant bulwarks against Communist expansion. They have sufficient strength in personnel and material to convince the Communist Chinese that any attempt to move against them will mean serious fighting.

Similarly, forces in Turkey and Pakistan serve to hinder the Communists from penetrating, either overtly or covertly, into the Near East and South Asia.

While CENTO, without outside assistance, cannot be expected to withstand all out Soviet military aggression its members are taking steps to improve both their individual and collective defenses.

Many of the more underdeveloped countries of the Near and Far East, which do not have a strong capacity to resist overt aggression, are nonetheless contributing to US security objectives by maintaining internal security and thwarting Communist attempts at subversion.

Of necessity, SEATO was not organized with the expectation of developing a cohesive regional force similar to NATO. However, individual country forces and their agreement to meet common dangers have served as a deterrent to Communist aggression in this strategic area. Lack of standardization, obsolete equipment, insufficient logistical facilities, and widespread illiteracy and malnutrition limit the contribution these forces can make to collective security.

In accordance with the Mutual Security Act, assistance to Latin America has been furnished only in accordance with defense plans which are important to the defense of the Western Hemisphere. Under the terms of bilateral military assistance agreements between twelve Latin American nations and the United States, each government by mutual agreement makes equipment, materials, services or other military assistance available to the support of hemispheric defense units. The most pressing threat to hemispheric security is submarine action in the Caribbean and along the coast of Latin America. Accordingly, the nations of the Rio Pact have considerably modernized their anti-submarine warfare capabilities.

While the United States does not ordinarily provide military assistance for the purpose of maintaining internal security in the Latin American Republics, the United States has heavy worldwide commitments and would doubtless have few military forces to spare for this area in the event of general hostilities. We would not be able to spare 190,000 troops, as we did in World War II, to protect this area against aggression and infiltration. Thus, the ability of Latin American nations to maintain internal security against infiltration and subversion is extremely valuable to US interests. The tracking facilities in Brazil and the Dominican Republic are important to the development of our own missile programs.

Despite these signs of strength there is little capacity for united action by the Latin American Republics. Participation by the United States would be required to repel invasion by a major outside power.

United States military security is becoming increasingly dependent on the ability to secure strategic materials from our allies, while denying some of these materials to the Sino-Soviet bloc. Today we import 100% of our natural rubber, tin, and abaca; 93% of our nickel and chrome; and 85% of our manganese and bauxite for making aluminum. Moreover, such products as cobalt, industrial diamonds, tungsten, and platinum come either from our allies or areas controlled by them. By preserving US access to these materials, our allies are contributing to US and allied military strength.

The benefits derived from these various allied forces cannot be measured solely in terms of tangible military capacity. Intangible factors are of equal importance, for allied will and determination to resist aggression are highly significant factors in the enemy assessment of the cost of aggression; and the existence of military forces is a critical factor in bolstering allied determination to resist aggression. Even small forces on the Communist periphery, outside the NATO area, serve as a trip wire to warn the world of Communist incursions although indigenous forces may not be strong enough by themselves to successfully resist aggression.

It has been necessary to speak rather generally of the contributions which our allies make, without undertaking detailed evaluations of the effectiveness of individual forces. One cannot judge these contributions solely in terms of the percentage of gross national product

devoted to military expenditures. Nor can a country's contribution be measured strictly in terms of the number of men under arms. Such a reckoning does not take into consideration either changes in strategy or changes in the quality of manpower. The strengthening of NATO in recent years has been more in modernization of equipment and facilities, and in raising the efficiency and firepower of troops, than in increasing numbers. Finally, one may perhaps evaluate the contribution made by our allies by imagining that we had no alliances and that the US were alone in maintaining armed forces to combat Communism. Former Secretary of Defense McElroy rejected such a Fortress America theory with these words:

It is doubtful whether the United States alone could hold all these varied fronts dispersed widely around the world. Certainly, it would stretch our resources to the full. To maintain adequate American military personnel ready to respond immediately to aggression, major or minor, would place such strains on our manpower that we probably could not meet them -- even if the American public were reconciled to do so. Furthermore, it is most doubtful that the deployment of American forces in such numbers and such strength would be acceptable to the nations in which they would have to be located.

Basic to our whole security program is the concept of a strength created and maintained by joining the capabilities of ourselves and our allies.

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APPENDIX TABLES

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Table 1
ESTIMATED
GROSS NATIONAL PRODUCT INDEXES
WESTERN ALLIANCES AND SINO-SOVIET BLOC
1950-1965, SELECTED YEARS

	<u>Index 1950=100</u>					<u>Percent of Total</u>			<u>Average Annual Growth Rate-%</u>	
	<u>1950</u>	<u>1955</u>	<u>1958</u>	<u>1959^a/</u>	<u>1965^b/</u>	<u>1950</u>	<u>1959^a/</u>	<u>1965^b/</u>	<u>1959/1950</u>	<u>1965/1959^b/</u>
Canada	100	125	133	137	175	3	2	2	3-3/4	4-1/4
European NATO	100	128	141	152	200	23	23	23	4-3/4	4-3/4
OAS, SEATO and Bilateral Allies	100	125	145	155	207	12	12	12	5	5
United States	<u>100</u>	<u>124</u>	<u>126</u>	<u>134</u>	<u>171</u>	<u>39</u>	<u>34</u>	<u>32</u>	<u>3-1/4</u>	<u>4-1/4</u>
Total - US and Allies	100	125	134	143	185	77	71	69	4	4-1/2
European Satellites	100	142	167	179	246	5	6	6	6-1/2	5-1/2
Communist China	100	147	193	216	342	5	7	8	9	8
USSR	<u>100</u>	<u>139</u>	<u>175</u>	<u>185</u>	<u>262</u>	<u>13</u>	<u>16</u>	<u>17</u>	<u>7</u>	<u>6</u>
Total - UCCM and Satellites	100	141	177	190	275	23	29	31	7-1/2	6-1/2
Grand Total	-	-	-	-	-	100	100	100	-	-

a. Preliminary Estimates
b. Projections

Table 2
ESTIMATED
INDUSTRIAL PRODUCTION INDEXES
WESTERN ALLIANCES AND SINO-SOVIET BLOC
1950-1965, SELECTED YEARS

	<u>Index 1950=100</u>					<u>Percent of Total</u>			<u>Average Annual Growth Rate-%</u>	
	<u>1950</u>	<u>1955</u>	<u>1958</u>	<u>1959^{a/}</u>	<u>1965^{b/}</u>	<u>1950</u>	<u>1959^{a/}</u>	<u>1965^{b/}</u>	<u>1959/1950</u>	<u>1965/1959^{b/}</u>
Canada	100	133	142	150	200	3	3	3	4-3/4	5
European NATO	100	141	161	172	243	24	24	24	6-1/4	6
OAS, SEATO and Bilateral Allies	100	150	186	193	286	7	8	8	7-3/4	7
5 United States	<u>100</u>	<u>129</u>	<u>125</u>	<u>141</u>	<u>183</u>	<u>48</u>	<u>40</u>	<u>35</u>	<u>4</u>	<u>4-1/2</u>
Total - US and Allies	100	135	141	155	211	82	75	70	4-3/4	5-1/4
European Satellites	100	157	198	215	323	7	8	9	9	7
Communist China	100	266	516	640	1,400	1	3	5	23	14
USSR	<u>100</u>	<u>168</u>	<u>211</u>	<u>229</u>	<u>380</u>	<u>10</u>	<u>14</u>	<u>16</u>	<u>10</u>	<u>8.6</u>
Total - USSR and Satellites	100	171	223	247	414	18	25	30	10.5	9
Grand Total	-	-	-	-	-	100	100	100	-	-

a. Preliminary Estimates

b. Projections

TABLE 3
COMPARATIVE MILITARY STRENGTH DATA
US AND ITS ALLIES VS. SINO-SOVIET BLOC 1/
WINTER 1959-60 2/

	Armed Forces Total Active Strength	Army Active Strength	Aircraft in Operational Units	Major Combatant Vessels 3/
US and Alliances	8,680,000	5,570,000	29,000	3,700
of which: US Allies	6,200,000	4,700,000	12,000	2,100
US Allies as percent of total	71	84	41	57
Sino-Soviet Bloc	About 9,300,000	About 7,250,000	About 25,000	About 3,000
of which: European Satellites and Communist China	About 4,700,000	About 4,250,000	About 6,000	About 700
European Satellites and Communist China as percent of total	51	59	24	23

1/ For purposes of this table, allies of the U.S. have been defined as those countries with whom the United States has either bilateral or multilateral mutual defense agreement. Numerous other friendly nations, many of which are receiving U.S. military assistance, are not included.

2/ On 14 January 1960, Premier Khrushchev placed the personnel strength of the Soviet armed forces at 3,623,000. This figure for total armed forces is almost 1,000,000 less than the commonly accepted figure of about 4,600,000, including security forces, implied in this table. As of the time of the completion of this study, a thorough evaluation of the credibility of Khrushchev's statement had not been completed.

3/ Includes vessels in reserve and undergoing repair.